

Rev. Rul. 58-224, 1958-1 C.B. 242, distinguished Rev. Rul. 67-219

An organization which operates a trade show as its sole or principal activity primarily for the purpose of rendering particular services to individual persons is not entitled to exemption from Federal income tax as an organization described as a business league in section 501(c)(6) of the Internal Revenue Code of 1954.

Advice has been requested whether an organization which is primarily engaged in the staging of an annual merchandise show, under the circumstances described below, is entitled to exemption from Federal income tax as a business league under the provisions of section 501(c)(6) of the Internal Revenue Code of 1954.

The instant organization is a nonprofit corporation without capital stock. It was organized by members of the trade and extension committee of the local chamber of commerce who are interested in the sale and distribution of gift and housewares merchandise. Each member of the merchandise show committee of the chamber is also a member of the organization. The bylaws provide that no dues or other charges of any nature shall be assessed against or collected from members. The general purpose of the organization is to promote the interest of trade and increase the facilities of commercial transactions, particularly in connection with the display, distribution and sale of merchandise. However, its sole activity consists of the staging of an annual merchandise show under the sponsorship of the chamber of commerce. The show for the most part consists of exhibits by manufacturers. A few wholesalers have exhibits of such merchandise not otherwise represented. The association publishes a buyer's guide which it furnishes free to each exhibitor and retailer. The buyer's guide shows the name of each exhibitor, the type of merchandise on display, and the location of the exhibit, and stresses the economy and convenience of making all purchases of merchandise under one roof. Admittance is by reservation only and the general public is excluded from the show. Entertainment and the awarding of prizes serve as inducements for retailers to attend the show. A retailer may place his order at the show for merchandise to be shipped by the manufacturer or by the distributor specified. Receipts are derived from fees charged manufacturers and wholesalers for exhibit space and from the sale of banquet tickets. Expenditures are made for advertising, promotion, banquets, entertainment, rent of hotel space for exhibits, and other operating expenses.

Section 501(c)(6) of the Code exempts from Federal income tax 'Business leagues, chambers of commerce, real-estate boards, or boards of trade, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.'

Section 39.101(7)-1 of Regulations 118, made applicable to the 1954 Code by Treasury Decision 6091, C.B. 1954-2, 47, holds that a business league is an association of persons having some

common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit and that the activities of such an association should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

It is shown that the sole activity of the instant organization is conducting an annual trade show. It is organized and operated for the most part by individuals who are salesmen and/or distributors. Its advertising appears to be directed toward potential retailers and to stress the advantages of making all purchases of merchandise under one roof. The income is derived principally from manufacturers and distributors, most of whom appear not to be members of the organization.

It is concluded that the activities of the instant organization substantially serve the exhibitors and retailers as a convenience and economy in the conduct of their businesses. In conducting the show, it provides direct advertising and publicity campaigns for distributors, eliminates substantial travel on the part of such distributors, and provides, primarily, selling opportunities for them, as well as opportunities for retailers to see all types of the merchandise in question under one roof. Therefore, it is the position of the Internal Revenue Service that the instant organization is rendering particular services for individual persons as distinguished from the improvement of business conditions generally.

Accordingly, it is held that the instant organization, which operates a trade show as its sole or principal activity and primarily for promoting the interest of individuals, is not entitled to exemption from Federal income tax as an organization described in section 501(c)(6) of the Internal Revenue Code of 1954. The conclusion reached herein represents the position of the Service as to the application of the law to the entire state of facts involved. The denial of exemption to the instant organization on the basis of the detailed statement of facts involved is not to be interpreted as implying that such an organization may qualify for exemption under section 501(c)(6) of the 1954 Code, if, on the contrary, it invites the public to its trade show and makes no sales of merchandise at the show. In such event, consideration would be given to the extent, if any, to which the organization is promoting the interests of individuals from the standpoint of its over-all activities.